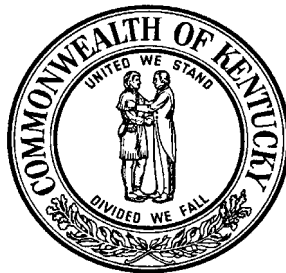


**REPORT OF THE AUDIT OF THE
LINCOLN COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 30, 2005



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Ronald Gilbert, Lincoln County Judge/Executive

Honorable Shelby Lakes, Lincoln County Sheriff

Members of the Lincoln County Fiscal Court

The enclosed report prepared by Moore Stephens Potter, LLP, Certified Public Accountants, presents the Lincoln County Sheriff's Settlement - 2004 Taxes as of April 30, 2005.

We engaged Moore Stephens Potter, LLP to perform the financial audit of this statement. We worked closely with the firm during our report review process; Moore Stephens Potter, LLP evaluated the Lincoln County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
LINCOLN COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 30, 2005

Moore Stephens Potter, LLP has completed the audit of the Sheriff's Settlement - 2004 Taxes for Lincoln County Sheriff as of April 30, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$5,189,203 for the districts for 2004 taxes, retaining commissions of \$155,801 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,026,854 to the districts for 2004 Taxes. The Sheriff owes taxing districts \$2,258 and refunds of \$291 are due to the Sheriff from a taxing district.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

At November 8, 2004, the County Sheriff's deposits were uninsured and uncollateralized in the amount of \$300,208.

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MOORE STEPHENS POTTER LLP

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

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Independent Auditor's Report

We have audited the Lincoln County Sheriff's Settlement - 2004 Taxes as of April 30, 2005. This tax settlement is the responsibility of the Lincoln County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lincoln County Sheriff's taxes charged, credited, and paid as of April 30, 2005, in conformity with the modified cash basis of accounting.

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Ronald Gilbert, Lincoln County Judge/Executive
Honorable Shelby Lakes, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

Moore Stephens Potter, LLP

Moore Stephens Potter, LLP

Audit fieldwork completed -
September 26, 2005



LINCOLN COUNTY
SHELBY LAKES, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

April 30, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 530,872	\$ 1,008,312	\$ 2,157,373	\$ 739,832
Tangible Personal Property	23,376	49,977	94,988	85,690
Intangible Personal Property				45,633
Increases Through Exonerations	261	611	1,062	669
Franchise Corporation	93,595	198,644	375,440	
Franchise Interest	344	737	1,215	
Additional Billings	1,100	2,099	4,470	737
Oil and Gas Property Taxes	49	99	201	69
Fire Acres	980			
Penalties	4,400	8,535	17,862	6,327
Adjusted to Sheriff's Receipt	(527)	(811)	(2,132)	(777)
Gross Chargeable to Sheriff	<u>\$ 654,450</u>	<u>\$ 1,268,203</u>	<u>\$ 2,650,479</u>	<u>\$ 878,180</u>
<u>Credits</u>				
Exonerations	4,481	8,769	18,209	6,661
Discounts	7,303	13,828	29,631	11,914
Delinquents:				
Real Estate	17,174	33,579	69,792	23,934
Tangible Personal Property	232	473	943	496
Intangible Personal Property	16			87
Uncollected Franchise	2,164	4,159	8,264	
Total Credits	<u>\$ 31,370</u>	<u>\$ 60,808</u>	<u>\$ 126,839</u>	<u>\$ 43,092</u>
Taxes Collected	\$ 623,080	\$ 1,207,395	\$ 2,523,640	\$ 835,088
Less: Commissions *	<u>26,753</u>	<u>42,632</u>	<u>50,640</u>	<u>35,776</u>
Taxes Due	\$ 596,327	\$ 1,164,763	\$ 2,473,000	\$ 799,312
Taxes Paid	595,678	1,162,870	2,469,474	798,832
Refunds (Current and Prior Year)	<u>544</u>	<u>1,055</u>	<u>2,211</u>	<u>771</u>
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 105</u>	<u>\$ 838</u>	<u>\$ 1,315</u>	<u>\$ (291)</u>

The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY
 SHELBY LAKES, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2004 TAXES
 April 30, 2005
 (Continued)

* Commissions:

10% on	\$	10,000
1% on	\$	245,593
1.5% on	\$	1,406,050
2% on	\$	756,672
4% on	\$	634,762
4.25% on	\$	2,136,126

** Special Taxing Districts:

Library District	\$	130
Health District		148
Extension District		143
Ambulance District		162
Fire District		<u>255</u>
Due Districts	\$	<u><u>838</u></u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 8, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$300,208 of public funds uninsured and unsecured.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2005
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2004 through April 30, 2005.

Note 4. Interest Income

The Lincoln County Sheriff earned \$2,908 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Lincoln County Sheriff collected \$30,793 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Lincoln County Sheriff collected \$1,191 of advertising costs and \$1,465 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments and Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.090, property is presumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer, in accordance with KRS 393.110. For the 2004 taxes, the Sheriff had \$1,322 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENTS AND RECOMMENDATIONS

LINCOLN COUNTY
SHELBY LAKES, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 30, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On November 8, 2004, \$300,208 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response: No loss was incurred.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation of Duties

We recognize that segregation of duties is a judgment established by management. We also recognize that this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and budgetary constraints. Due to the limited staff, a proper segregation is hereby noted as a reportable condition pursuant to professional auditing standards. However, we believe the reportable condition described above is not a material weakness. We recommend the Sheriff establish a proper segregation of duties over his operations. In order to offset this internal weakness, the Sheriff should have assigned duties to another deputy/employee. Duties that should have been segregated include preparing deposits, reconciling bank statements, opening mail, and preparing and distributing checks. The other deputy/employee should have documented performing these duties by initialing and dating documentation.

Sheriff's Response: Not enough staff to comply.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

Lacks Adequate Segregation of Duties

This comment has been repeated in the current year audit.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the Lincoln County Sheriff's Settlement - 2004 Taxes as of April 30, 2005, and have issued our report thereon dated September 26, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lincoln County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Report On Internal Control Over Financial Reporting And On Compliance
And Other Matters Based On An Audit Of The Financial Statement
Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lincoln County Sheriff's Settlement - 2004 Taxes as of April 30, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Moore Stephens Potter, LLP

Moore Stephens Potter, LLP

Audit fieldwork completed -
September 26, 2005



